

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SSO-00 SS-20 DRC-01 RSC-01 INR-10 /047 W

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R 041026Z DEC 73

FM AMEMBJVSY JAKARTA

TO SECSTATE WASHDC 9813

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SAIGON

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

USLO PEKING

AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 3 JAKARTA 14177

FOR THE SECRETARY FROM AMBASSADOR GALBRAITH

E.O. 11652: GDS

TAGS: PFOR,PINT,EGEN,ID

SUBJECT: INDONESIA: CURRENT OUTLOOK: PART II

REFS: JAKARTA A-236 (NOTAL)

B) JAKARTA A-241 (NOTAL)

C) JAKARTA 12497 (NOTAL)

D) JAKARTA 14176

1. SUMMARY: THIS CABLE ATTEMPTS TO ASSESS TRENDS IN  
INDONESIA WHICH BEAR ON US POLICY OVER THE NEXT SIX  
MONTHS TO A YEAR. IN GENERAL WE FIND THAT THE COUNTRY  
IS IN A MOOD OF DOUBT AND DISCONTENT, AND INDEED  
IN SOME DISARRAY MANAGERIALLY SPEAKING, AS ITS  
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LEADERS COMPLETE THEIR FIRST 5-YEAR PLAN AND ARE

ABOUT TO LAUNCH THE NEXT ONE. AT THE SAME TIME THE COUNTRY IS ENJOYING A RATE OF ECONOMIC PROGRESS AND A LEVEL OF PROSPERITY, WHICH, THOUGH UNEVENLY DISTRIBUTED, IS UNPRECEDENTED. BUT NOT UNEXPECTEDLY THE STRAINS OF SUCCESS IN SOME FIELDS HAVE CAUSED SOME STRESS AND THE APPEARANCE OF SMALL CRACKS IN OTHERS.

2. THE POLITICAL LEADERS OF THE PAST ARE DISGRUNTLED AND DEMORALIZED; THE YOUNGER GENERATION DISSATISFIED WITH THEIR LACK OF A CLEARLY PERCEIVED ROLE; BOTH OF THESE GROUPS AND THOSE THEY INFLUENCE ARE CRITICAL OF THE UNEVEN PACE OF ECONOMIC DEVELOPMENT AND, IN THE CASE OF YOUTH, PARTLY INSPIRED BY THE EXAMPLE OF THEIR THAI CONTEMPORIES, TRYING TO RESURRECT THEIR TRADITIONAL ACTIVIST ROLE AS THE CONSCIENCE OF THE NATION. ADULTS FROM MANY GROUPS, INCLUDING THE PERENNIALY FRUSTRATED MOSLEMS, THE UNREPENTANT SUKARNOISTS AND THE REFORMIST MINDED PSI, (SOCIALIST PARTY) SHARE AND ENCOURAGE THESE YOUTHFUL MANIFESTATIONS. ALONG WITH THIS BEGINNING CURRENT OF RESTIVENESS THERE HAS BEEN A NOTICEABLE RECENT RISE IN EXPRESSIONS OF ANTI-FOREIGN SENTIMENT, ALWAYS CLOSE TO THE SURFACE IN INDONESIA.

3. RECENT STUDENT PROTEST HAS QUESTIONED EXCESSIVE INDONESIAN RELIANCE ON FOREIGN AID AND FOCUSED ON POTENTIAL DANGERS OF UNCONTROLLED FOREIGN INVESTMENT. MANY OF THESE CRITICS HAVE FOCUSED ON THE TECHNOCRATS, PICTURING THEM AS HANDMAIDS OF INADEQUATELY CONTROLLED FOREIGN AID AND INVESTMENT. FOR MANY OF THOSE SOUNDING SUCH CRITICISM THE REAL TARGETS ARE NOT THE TECHNOCRATS BUT PRESIDENTIAL AIDES AND OTHERS WHO HAVE ALLOWED OR ENGAGED IN CORRUPTION, CONNIVED WITH INDIGENOUS CHINESE AND IGNORED THE NATIVE (NON-CHINESE) ENTREPRENEUR.

4. CURRENT LEADERSHIP IS DETERMINED TO PRESERVE MAIN LINES OF NEW ORDER POLICY WHICH ARE TO INSURE SECURITY AND CONTINUITY OF SUHARTO GOVERNMENT, CONTINUE CONCENTRATION ON ECONOMIC, WHILE ADDING MORE

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SOCIAL DEVELOPMENT AND KEEPING LID ON OR AT LEAST MAXIMUM POSSIBLE CONTROL OVER POLITICAL ACTIVITIES. BARRING SOME UNFORESEEN SCHISM IN TOP LEVEL OF MILITARY WE DOUBT THAT SUHARTO GOVERNMENT WILL BE SHAKEN BY CRITICISM OR CAUGHT NAPPING AT THEIR CONTROLS. THEY ARE ALERT AND COGNIZANT OF THE RESTIVENESS OF YOUTH, AWARE OF CRITICISM OF NEGLECT OF SOCIAL SECTORS LIKE EDUCATION AND

HEALTH AND DETERMINED TO MAKE A BETTER SHOWING IN THESE FIELDS.

5. LEADERS OF GOI ARE THEMSELVES QUESTIONING SOME ASPECTS OF DEPENDENCE ON FOREIGN AID. THEY ARE IMPATIENT WITH ITS SLOWNESS AND UNCERTAINTY AND LIKE THE STUDENTS ARE IN A CRITICAL FRAME OF MIND WITH RESPECT TO WHAT THEY SEE AS RESTRAINTS IMPOSED BY FOREIGNERS (ESPECIALLY THE IBRD AND THE IMF). INCREASED EARNINGS FROM OIL AND OTHER EXPORTS AND THE EAGERNESS OF FOREIGN BANKERS TO EXTEND CREDIT ON THE BASIS OF INDONESIA'S POTENTIAL EARNINGS FROM THESE COMMODITIES, ARE INDUCING A "TWO-TRACK" POLICY ON DEVELOPMENT. ESPECIALLY BECAUSE OF PERTAMINAS SPECTACULAR GROWTH UNDER THE LEADERSHIP OF GENERAL IBNU SUTOWO, WHO USES LAVISH AMOUNTS OF COMMERCIAL FINANCING, THERE IS A GROWING TENDENCY TO DEVELOP INDUSTRIES ON THE BASIS OF COMMERCIAL BORROWING AND WITHOUT PARTICULAR REFERENCE TO THE TECHNOCRATS' EFFORTS AT PLANNING GOVERNMENT-TO-GOVERNMENT AID AND OVERALL DEVELOPMENT.

6. WHILE I DO NOT YET FORESEE ANY MAJOR PROBLEM IN US-INDONESIAN BILATERAL COOPERATION IN AID AND INVESTMENT MATTERS, I DO FEEL THAT WE MAY BE IN FOR A TIME OF RISING DOUBT AND POSSIBLY SLIGHT IRRITATION ARISING IN PART BECAUSE OF OUR INABILITY TO MAKE GOOD ON PLEDGES OR EXPECTED LEVELS OF MILITARY AND ECONOMIC ASSISTANCE AND IN PART BECAUSE OF INDONESIAN EXPECTATIONS FROM USG TO BALANCE OFF BURGEONING JAPANESE PRESENCE AND HIGHER JAPANESE BIDDING FOR INDONESIAN RESOURCES AND INVESTMENT ACTIVITIES. THIS SITUATION WILL DEMAND THAT MORE THAN EVER OUR RELATIONS BE BASED ON REALISTIC ASSESSMENT OF MUTUAL

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NEEDS AND INTER-DEPENDENCIES - INCLUDING US RECOGNITION OF THE VALUE TO USG OF INDONESIAN POLICY OF MAKING SIGNIFICANT OIL AND ENERGY RESOURCES AVAILABLE FOR US. WE WILL NEED A CONTINUING SEARCH FOR CREATIVE NEW POLICIES (AND REASSESSMENT OF OLD ONES) ON PART OF BOTH USG AND PRIVATE AMERICAN FIRMS WORKING HERE. END SUMMARY.

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ACTION EA-14

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C O N F I D E N T I A L SECTION 2 OF 3 JAKARTA 14177

FOR THE SECRETARY FROM AMBASSADOR GALBRAITH

7. THE END OF THE FIRST FIVE YEAR PLAN (WHICH TERMINATES IN APRIL) FINDS INDONESIA IN A MOOD OF SOME RISING DOUBT AND DISCONTENT. THE GOI CAN BE PROUD OF PROGRESS SINCE 1968 IN REBUILDING INFRASTRUCTURE; OF INCREASED INVESTMENT (BOTH FOREIGN AND DOMESTIC); OF INCREASED EXPORTS AND SWELLING EXPORT EARNINGS; OF A CONTINUED SOUND CURRENCY AND RELATIVE PRICE STABILITY. INDEED THE GOI IS PROUD OF THE WAY THEY HAVE ESTABLISHED AND MAINTAINED ORDERLY GOVERNMENT THROUGHOUT AN ARCHIPELAGO PERVADED WITH INTERNAL TENSIONS, MANY OF THEM AGE-OLD, INCREASED ECONOMIC GROWTH AND WON RESPECT AND ADMIRATION FROM THEIR NEIGHBORS IN THE INTERNATIONAL COMMUNITY.

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8. THE FAILURES AND INADEQUACIES ARE EQUALLY OBVIOUS. THE ECONOMIC ADVANCES HAVE BEEN BADLY

DISTRIBUTED, WITH JAKARTA GETTING THE LION'S SHARE, AND THE GAP BETWEEN RICH AND POOR AND BETWEEN JAKARTA AND THE OUTER PROVINCES NOW WIDER THAN EVER. THE FAILURE OF AGRICULTURAL POLICY (THE PRIORITY EFFORT OF THE FIRST FIVE YEAR PLAN) TO ACHIEVE THE TARGET OF SELF-SUFFICIENCY IN FOOD HAS BEEN DEEPLY DISAPPOINTING. THE CONTINUED WEAKNESS AND INEFFICIENCY OF A SWOLLEN AND FECKLESS BUREAUCRACY HAMSTRINGS THE GOVERNMENT'S OFTEN ENLIGHTENED POLICIES. THE CONTINUED INADEQUACY OF EDUCATION CASTS A LONG SHADOW ACROSS THE FUTURE. DESPITE OCCASIONAL BRAVE PRONOUNCEMENTS, WE HAVE YET TO SEE ANYTHING LIKE THE KIND OF TOP-LEVEL DETERMINATION THAT WILL BE REQUIRED TO CURE THE CORRUPTION PROBLEM. CUKONGS (FAVORED CHINESE FINANCIERS) STILL FLOURISH WHILE NOTHING ADEQUATE HAS YET BEEN DONE TO MOVE NATIVE ENTREPRENEURS INTO AN ADEQUATE ROLE IN DOMESTIC INVESTMENT. FINALLY, THERE HAS BEEN LITTLE PROGRESS TOWARD THE INSTITUTIONALIZATION OF POLITICS, WHICH WOULD BEGIN TO CREATE A HEALTHY DEGREE OF REGIONAL AUTONOMY, STIMULATE POPULAR PARTICIPATION, AND IN TIME REDUCE THE STULTIFYING (AND INHERENTLY UNSTABLE) TRADITIONAL SYSTEM OF OVERCENTRALIZED, PATERNALISTIC AUTHORITY EMANATING FROM JAKARTA.

9. AT THE MOMENT THE CRITICAL MOOD OF THE COUNTRY IS BEING EXPRESSED MOST FORCEFULLY THROUGH A REVIVAL OF STUDENTACTIVISM. THE STUDENT PROTESTORS (DRAWN MAINLY FROM A SMALL, HIGHLY WESTERNIZESY GROUP) ARE HOPING TO RESURRECT THE STUDENTS' TRADITIONAL ROLE AS THE CONSCIENCE OF INDONESIA. PARTIALLY INSPIRED BY THAI EXAMPLE, THEY ARE GIVING VOICE TO FRUSTRATIONS FELT BY WIDER CIRCLES - THE UN- AND UNDER-EMPLOYED, THE INDONESIAN ENTREPRENEURIAL CLASS (WHICH HAS BEEN DAMAGED BY OFFICIAL FAVORITISM TO THE ETHNIC CHINESE), THE PERENNIALY UNHAPPY, FERVENT ISLAMIC ELEMENTS AND REFORM-MINDED SOCIALISTS (OLD PSI) AND LURKING IN THE BACKGROUND, THE UNREFORMED SUKARNOISTS. REFLECTING XENOPHOBIC  
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SENTIMENTS WHICH HAVE ALWAYS BEEN PRESENT AMONG THESE OLDER POLITICAL ELEMENTS IN INDONESIA, THE STUDENTS HAVE RECENTLY FOCUSSED CRITICISM ON THE TECHNOCRATS AS THE HANDMAIDS OF FOREIGN AID AND INVESTMENT WHICH THE STUDENTS SAY HAS BEEN DETRIMENTAL TO INDONESIA'S LONG-RANGE INTERESTS BECAUSE OF MALDISTRIBUTION AND MAL-ADMINISTRATION. THE STUDENTS ARE AWARE THAT THEY ARE USING THE TECHNOCRATS AS SCAPEGOATS; THE GSTTER WILL PROBABLY NOT SUFFER UNDULY, HOWEVER,

AS LONG AS PRESIDENT SUHARTO CONTINUES TO REGARD THEM AS ASSETS TO HIS GOVERNMENT. THE STUDENTS' REAL TARGETS ARE POWER WIELDERS, NOT PLANNERS - I.E., THE PRESIDENTIAL AIDES AND OTHERS WHO INFLUENCE POLICY, ENGAGE IN CORRUPTION ANYSEEM HEEDLESS TO THE PLIGHT OF THE LITTLE MAN.

10. THERE ARE OTHER FACTORS CONTRIBUTING TO THE STILL SLIGHT BUT POSSIBLY GROWING CLOUD OVER THE TECHNOCRATS AND THE QUESTIONING OF INDONESIA'S CURRENT RELATIONSHIP WITH THE OUTSIDE WORLD. WITHIN THE GOVERNMENT THERE IS RESENTMENT (MOST FORCEFULLY FELT AND EXPRESSED BY IBNU SUTOWO OF PERTAMINA) AT THE SLOWNESS AND RESTRAINTS OF THE "IGGI APPROACH" - I.E., ORTHODOX CONCESSIONAL BORROWING - WHICH MAY INHIBIT THOSE WHO WISH TO MOVE AHEAD PROMPTLY WITH DEVELOPMENT PROJECTS. HIS APPROACH, WHICH IS TO BORROW MONEY COMMERCIALY AND GET PROJECTS DONE SWIFTLY AT WHATEVER THE COST (AND WITHOUT THE GALLING INTERFERENCE OF IBRD AND IMF - AT THE INSISTENCE, IT IS ASSUMED, OF THE IGGI), IS APPEALING TO PRESIDENT SUHARTO AND OTHERS AS THE WAY TO SPEED INDONESIA'S DEVELOPMENT AND IS TO SOME EXTENT HELPING TO DISCREDIT THE TECHNOCRATS WHOSE CONCERN FOR FISCAL PRUDENCE IS SEEN AS EVIDENCE OF RESTRAINTS IMPOSED BY THE FOREIGN-CONTROLLED DONOR APPARATUS. (WHILE ACTIVISTS SUCH AS IBNU UNQUESTIONABLY PRODUCE ECONOMIC WASTE, THEIR ACTIVITIES HAVE SO FAR - GIVEN THE RISING MARKET INDONESIA ENJOYS IN MANY AREAS - TENDED TO JUSTIFY THEMSELVES ECONOMICALLY AND WILL PROBABLY CONTINUE TO DO SO IN THE IMMEDIATE FUTURE.

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ACTION EA-14

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C O N F I D E N T I A L SECTION 3 OF 3 JAKARTA 14177

FOR THE SECRETARY FROM AMBASSADOR GALBRAITH

11. ANOTHER FACTOR STRONGLY AFFECTING THE WAY  
INDONESIANS ARE QUESTIONING THEIR FUTURE ECONOMIC  
RELATIONSHIP WITH THE OUTSIDE WORLD IS THE GROWING  
COMPETITION BETWEEN JAPANESE AND US BUSINESS INTERESTS  
- WITH THE JAPANESE GETTING STRONG BACKING FROM THEIR  
GOVERNMENT. JAPAN HAS EMERGED AS A STRONG PILLAR OF  
SUPPORT FOR FOREIGN AID TO INDONESIA - EQUAL TO OR  
STRONGER THAN THE UNITED STATES. IT SEEMS CLEAR THAT  
THE JAPANESE, BADLY BURNED BY THE RECENT MIDDLE EAST  
CRISIS, INTEND TO OFFER MORE AND MORE INCENTIVES, PROBABLY  
IN THE SHAPE OF SOFT LOANS  
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TO INSURE THEIR ACCESS TO  
IMPORTANT INDONESIAN ENERGY AND OTHER RESOURCES.

12. INDONESIANS ARE AWARE THAT THE US, LIKE JAPAN,  
NEEDS INDONESIAN RESOURCES AND THAT OUR NEEDS ARE  
LIKELY TO INCREASE IN THE FUTURE. (THEY ARE BOTH  
TITILLATED AND APPREHENSIVE BY THE PROSPECT OF GIANT  
SUITORS COMPETING FOR THEIR FAVORS.) THEY ARE ANXIOUS  
TO GIVE US ACCESS TO THEIR RESOURCES, PARTLY TO AVOID  
OVERDEPENDENCE ON THE JAPANESE. BUT THEY ALSO FEEL  
THEY SHOULD GET SOMETHING MORE FROM US - AT THE VERY LEAST  
AN ABILITY TO MAKE GOOD ON PLEDGED OR EXPECTED LEVELS  
OF MILITARY AND ECONOMIC ASSISTANCE. (OUR FAILURE  
TO SUPPLY PL 480 RICE IN FY 1974 AND THE SHORTFALLS  
IN OUR MAP HAVE MADE THEM WONDER HOW MUCH THEY CAN  
COUNT ON US.)

13. THE INDONESIANS DESIRE TO COOPERATE WITH US (IN A MANNER

WHICH DOES NOT DAMAGE THEIR NON-ALIGNED IMAGE IN A TACITLY UNDERSTOOD STRATEGY OF ANTI-COMMUNIST INFLUENCE. HOWEVER, THEY WOULD LIKE US TO CONSULT WITH THEM MORE CLOSELY AND TO KEEP THEM BETTER INFORMED THAN IN THE PAST. FOR EXAMPLE, IF WE WISH TO MAINTAIN CURRENT LEVELS OF COOPERATION WE WILL HAVE TO GIVE THEM DEEPER INSIGHTS INTO OUR THINKING ABOUT SUCH MATTERS AS FUTURE ECONOMIC AND POLITICAL POLICY TOWARD INDOCPCNA, CHINA, JAPAN, ETC., THAN WE HAVE THUS FAR.

14. WE DO NOT EXPECT THE CURRENT MOOD OF DOUBT AND DISCONTENT TO RESULT IN MAJOR CHANGES IN GOI POLICY, MUCH LESS IN NATIONAL UPHEAVAL. THE CURRENT STUDENT PROTEST MUST BE KEPT IN PERSPECTIVE. THE ORGANIZATION OF THE STUDENTS IS STILL WEAK (REF C). THEIR AIM IS TO REFORM, NOT OVERTHROW THE GOVERNMENT, AND SOME OF THEIR BASIC CONCERNS ARE SHARED BY SENIOR GENERALS (WHO APPEAR TO BE IN CLOSE TOUCH WITH STUDENTS AND HAVE THEIR CONFIDENCE). THE GOI IS AT PRESENT WISELY PERMITTING PEACEFUL PROTEST (IF ONLY BECAUSE SUCH RECEPTIVITY CREATES AN IMPRESSION OF FORWARD MOTION TOWARD THE SOLUTION OF BASIC SOCIAL PROBLEMS) AND, BARRING UNFORESEEN HIGH-LEVEL SCHISMS IN THE ARMY, WILL PROBABLY BE ABLE TO KEEP THE LID  
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ON ANY MORE SERIOUS DISSIDENT ACTION.

15. HOWEVER LEAVING ASIDE THE UNLIKELY PROSPECT OF REVOLUTION WE SEE THE CURRENT QUESTIONING MOOD (WITH ITS ATTENDANT REEMERGENCE OF A MILD XENOPHOBIA) AS HAVING SOME DEFINITE IMPLICATIONS FOR US POLICY. MORE THAN IN RECENT YEARS, THE INDONESIANS ARE LIKELY TO QUESTION AND, WHERE VULNERABLE, CRITICIZE, FOREIGN PRESENCE HERE. AS THEY FEEL DISILLUSIONED WITH "ORTHODOX" FOREIGN AID, AND GAIN A DEGREE OF ECONOMIC SELF-RELIANCE FROM OIL AND OTHER EXPORT REVENUES, THEY WILL BE LESS TOLERANT OF FOREIGN ADVICE AND CRITICISM AND MORE LIKELY TO REACT NEGATIVELY TO THE MINOR IRRITANTS POSED BY THE MERE PRESENCE OF LARGE NUMBERS OF FOREIGNERS. AMONG OTHER THINGS, THIS MEANS THAT WE SHALL HAVE TO CONTINUE TO WATCH CAREFULLY THE NUMBER OF OFFICIAL AMERICANS ASSIGNED HERE AND WE, NO LESS THAN LARGE AMERICAN CORPORATIONS, SHOULD CONTINUE TO PRACTICE LOW PROFILE.

16. WITH REGARD TO THE ENTIRE COUNTRY PROGRAM, IT IS MORE IMPORTANT THAN EVER THAT WE SHOULD KNOW EXACTLY WHAT WE NEED FROM THE INDONESIANS, THAT WE REALIZE WHAT THEY FEEL THEY NEED FROM US, AND THAT WE TRY TO MAKE REALISTIC COMMITMENTS BASED ON THIS



PERCEIVED MUTUAL DEPENDENCE, AND THEN KEEP THEM.  
FOR THE USG AND FOR PRIVATE FIRMS HERE, IT MEANS  
A CONSTANT RETHINKING OF OLD PROGRAMS (SUCH IS NOW  
UNDERWAY WITH REGARD TO OUR AID PROGRAM) AND A  
CONTINUING SEARCH FOR NEW ONES WHICH MAXIMIZE MUTUAL  
BENEFIT AND (EQUALLY IMPORTANT) DRAMATIZE TO THE  
INDONESIANS THAT THE BENEFIT IS MUTUAL. IN SHORT, WE  
SHOULD BE PREPARED FOR A TIME OF EXPRESSED IRRITATION  
AND DEMAND FOR ADJUSTMENT, PERHAPS ACCOMPANIED BY AN  
INCREASING DEGREE OF DISSENT AND CRITICISM IN  
INDONESIA. NEVERTHELESS IF WE CAN MOVE FORCEFULLY IN  
SUPPORT OF OUR INTERESTS WE SHOULD BE ABLE TO MOVE  
TOWARD A MORE MATURE AND RECIPROCAL RELATIONSHIP WITH  
SOUTHEAST ASIA'S LARGEST AND POTENTIALLY WEALTHIEST  
NATION. WHATEVER ITS REMAINING PROBLEMS, INDONESIA  
HAS IN THE LAST FIVE YEARS MOVED FORWARD ECONOMICALLY  
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AND IT IS PSYCHOLOGICALLY STRONGER THAN EVER IN ITS  
DOMINANT ASPIRATION OF INDEPENDENCE AN SELF-SUFFICIENCY.  
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